6 Market Support for New Development

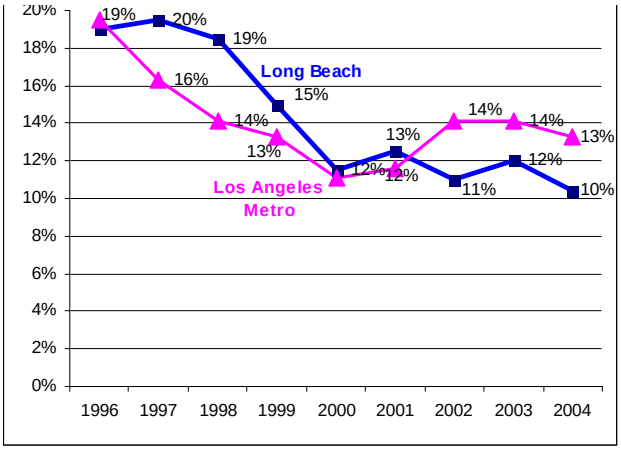
This section explores the current and future market for office, retail and industrial space and includes a discussion of key "opportunity areas" in Long Beach.

6.1 Current Long Beach Office, Retail and Industrial Markets

6.1.1 OFFICE MARKET

In 1997, the Long Beach office market started to recover from years of high vacancy rates. Additionally, unlike other South Bay office markets, the Long Beach office market has continued to improve in the post dot-com era. As indicated in Figure 22, office vacancy is currently 10 percent in Long Beach, down from a high of 19.5 percent in 1997. Long Beach vacancy has fallen faster and further than overall vacancy in the Los Angeles metro area. Long Beach has a diversified office tenant base and seems to handle economic change better than some markets. As Long Beach did not attract significant dot-com activity during the technology boom it has not suffered from some of the very high vacancy rates plaguing the recovery of South Bay cities like El Segundo.

Figure 22: Long Beach & L.A. Metro Area Office Vacancy



Long Beach's office market consists of approximately 8 million square feet of competitive class A and B space.[21] The market is split between the Downtown and Long Beach Airport areas with each offering over 3 million square feet. As indicated in Table 33 below, Long Beach vacancy is 10 percent, the rate that is considered balanced between the landlord and tenant needs. A higher rate tends to place downward pressure on lease rates, which inhibits new development and impacts landlord ability to profitably maintain property. A lower vacancy rate will typically result in rapid rent increases, which can force some businesses out of the city in search of lower rents.

Table 33: Long Beach and Competitor City Office Market, Class A and B Space, Q3 2004

Sub-Market	No of Buildings	Total Inventory sq. ft.	Available sq. ft.	Vacancy Rate	Class A Lease Rate ($/sq ft)	Absorption
Downtown Long Beach	22	3,939,752	523,987	13.3%	$ 2.16	50,210
North Long Beach	12	787,251	81,874	10.4%	$ 1.65	(18,007)
East Long Beach/Marina	6	479,257	36,903	7.7%	NA	(6,494)
Long Beach Airport/Freeway	23	2,965,228	204,601	6.9%	$ 1.87	33,060
Total Long Beach	***63***	***8,171,488***	***847,365***	***10.4%***	***$ 2.00***	**58,769**
El Segundo/Beach Cities	69	10,159,604	2,377,347	23.4%	$ 2.11	203,181
Torrance Central	45	3,520,481	612,564	17.4%	$ 2.02	(71,759)
LAX/Century Blvd.	18	3,884,716	1,188,723	30.6%	$ 1.51	(18,051)
190th Corridor	34	3,506,630	690,806	19.7%	$ 1.88	(33,886)
South Bay Competitor Market	***166***	***21,071,431***	***4,869,440***	***23.1%***	***$ 1.95***	**79,485**
Total South Bay Market	***229***	***29,242,919***	***5,716,805***	***19.5%***	**1.96**	**138,254**

Source: Cushman & Wakefield, 2004; MJC 2004

[21] Class A space is high-end office space with quality interior finishes and all standard services (such as a door man/security guard). Class B space tends to be older quality space with fewer services/amenities.

However, as indicated in Table 33, the Long Beach office market is still absorbing new office users (58,769 sq. ft. of new users in the third quarter of 2004).[22] Long Beach's competitive lease rates speak to the increasing desirability of the Long Beach office market. The market is also sufficiently tight to stimulate construction of new office development projects. (see Table 34). Overall asking lease rates are a healthy $2.00 per square foot, with slightly higher rates in Downtown Long Beach at $2.16/SF. These rates are competitive with other areas of the South Bay market, which range from $1.51/SF near LAX and $2.11/SF in El Segundo.

Within the Long Beach market, Class B space is filling up and vacancy rates are on par with Class A space. This indicates further health in the office market: in prior years, tenants left Class B space to trade up to Class A space because the market was weak and tenants could get better space for equivalent rents. This is no longer the case. In the 3rd quarter of 2004, 54,000 square feet of Class B space was absorbed. In the near term, Class A office space should experience modest gains in average lease rates. However, potential rent increases will depend on office vacancy rates in surrounding communities; if vacancy continues to increase it will dampen upward pressure on Long Beach lease rates.

6.1.1.1 L.A. Basin Office Market

Long Beach is part of the larger L.A. office market, the fourth largest office market in the United States, with over 246 million square feet. Recently the L.A. office market has experienced an upswing in leasing activity and net absorption that mirrors the trends in Long Beach. However, high-rent areas such as West Los Angeles and South Orange County have experienced the strongest net absorption in the past year indicating that lease rate is not as important to many tenants as facility location and amenities. In addition, most of the positive net absorption has taken place in Class A space, indicating a strengthening in the economy with firms willing to move into more expensive space.

- Overall office vacancy rates in L.A. County fell 2 percentage points to 15.5 percent in the third quarter of 2004. This is above the 10 percent level that the industry considers equilibrium, so the market remains a "renter's market."
- Overall, rental rates in Los Angeles Basin are still a bargain compared to other major metro areas. For example, Class A space in L.A. averages $2.39/SF compared to midtown Manhattan's $4.50/SF, $3.20/SF in Boston, $3.50/SF in Washington D.C. and $2.50/SF in the San Francisco Bay Area. Rental rates will inch up in the near term and climb more sharply in mid 2005 as vacancy continues to decline. Recent demand for space has been driven primarily by firms in the professional and business services sectors as well as by the finance sector. Overall demand from the high-tech, communications and entertainment sectors also continues to show improvements.
- Office property buyers spent more than $4.2 billion on office buildings in Los Angeles County in 2004, twice as much as in 2001 and 6 percent more than last year, according to Cushman & Wakefield. The average price rose to $196/sq. ft. in 2004 from $156/sq. ft. in 2003.

6.1.2 RETAIL MARKET

Long Beach's 5.3 million square feet of retail space is located in a variety of submarkets, each of which has a distinct character.

- The Downtown market includes Pine Avenue, the East Village, City Place and the Pike. Overall lease rates in downtown Long Beach range from $1.00 to $3.25/SF depending on location and amenities, with an average rate of $1.75/SF.

[22] Absorption refers to the amount of vacant space that is leased to tenants (absorbed) during a specific time period.

- Commercial corridors such as Long Beach Boulevard, Pacific Coast Highway, Anaheim, and other major arterials have lower overall lease rates ranging from $1.00 to $1.75/SF. Vacancy tends to be higher in auto-oriented non-mall corridor retail.
- Neighborhood shopping mall and pedestrian friendly shopping areas, such as Belmont Shore, Bixby Knolls, El Dorado Shopping Center, and the Long Beach Boulevard Shopping Center have higher lease rates ranging from $1.50 to over $3.50/SF.

6.1.3 INDUSTRIAL MARKET

Long Beach is part of the Long Beach/Harbor Cities industrial sub-market. According to Colliers Seeley, a real estate firm which tracks the industrial market, this market has over 38 million square feet of space with an average vacancy rate of 2.8 percent as of the second quarter of 2004. This is an extremely low industrial vacancy rate which indicates considerable pressure in the marketplace for more space. In addition, the Long Beach/Harbor Cities market has experienced an incredible rate of space absorption in the past quarter, with over 2 million square feet leased. Average lease rates were $0.54 per square foot per month; a slightly higher rate than many areas in L.A. County. In Q3 of 2004, just 164,900 SF of industrial space was added to the market, while another 455,600 SF was under construction and 423,600 SF was planned.

6.1.3.1 Los Angeles Industrial Space Market

With over 1.2 billion square feet in buildings of 10,000 square feet or more, the Los Angeles Basin boasts the largest industrial base in the nation. Forty-nine percent of the market is composed of large spaces (100,000+ SF), while 51 percent of industrial space is in medium and smaller sized buildings. Roughly 90 million SF or 10 percent of the space is dedicated to R&D. According to Colliers Seeley total vacancy was very low at 4.2 percent in the second quarter of 2004 and rents average $0.48 per square foot per month.

6.1.3.2 Implications for Economic Development

- Long Beach has a balanced office market. Anticipated job growth will create a market for new office development in Downtown and near the Airport.
- Long Beach currently has a shortage of industrial space, which may exacerbate attempts to attract and retain the high-tech and manufacturing firms which are vital to retaining a solid Long Beach middle class.
- Long Beach has a mismatch of retail space. Under-performing corridor retail should provide opportunities for mixed-use redevelopment and the creation of pedestrian-friendly residential-serving nodes given planned changes in City zoning.

6.2 Future Office, Retail and Industrial Demand

6.2.1 HISTORIC CONSTRUCTION TRENDS

Though past performance is no guarantee of future performance, it does provide a reasonable starting point for a forecast.

Office and Retail. Since 1990, developers have added an estimated 245,000 SF per year to the Long Beach inventory of office and retail space (see Table 34). However, the amount of space added each year varies widely based on the strength of the local economy, the development pipeline, and the approval process. New office and retail construction in a single year varies from an estimated 23,000 to over 700,000 square feet.

Industrial. Over the past 15 years, developers have built an estimated 72,000 square feet of new industrial space per year on average. As shown in Table 35, new industrial space has varied from a low of 15,000 to a high of 251,000 square feet per year.

Table 34: Building Permit Valuation, New Office & Retail Space, Long Beach, '90 – '02

Year	Estimated sq. ft.*	Valuation (2002 Dollars)
1990	495,968	$ 61,996,000
1991	134,608	$ 16,826,000
1992	70,192	$ 8,774,000
1993	99,784	$ 12,473,000
1994	23,224	$ 2,903,000
1995	25,072	$ 3,134,000
1996	325,800	$ 40,725,000
1997	103,320	$ 12,915,000
1998	533,936	$ 66,742,000
1999	203,944	$ 25,493,000
2000	275,456	$ 34,432,000
2001	180,752	$ 22,594,000
2002	719,920	$ 89,990,000
Average	245,537	$ 30,692,077

Source: MJC, 2004; Construction Industry Research Board; Macgraw Hill Construction Price Index, RS Means Square Foot Costs, 2005

* Assumes $125/SF for construction costs

Table 35: Building Permit Valuation, New Industrial Space, Long Beach '90 - '02

Year	Estimated sq. ft.*	Valuation (2002 Dollars)
1990	28,253	$ 2,119,000
1991	83,851	$ 6,423,000
1992	71,984	$ 5,514,000
1993	251,384	$ 19,256,000
1994	68,681	$ 5,261,000
1995	12,846	$ 984,000
1996	35,157	$ 2,693,000
1997	50,444	$ 3,864,000
1998	15,405	$ 1,180,000
1999	53,225	$ 4,077,000
2000	76,279	$ 5,843,000
2001	86,292	$ 6,610,000
2002	111,031	$ 8,505,000
Average	72,634	$ 5,563,769

Source: MJC, 2004; Construction Industry Research Board; Macgraw Hill Construction Price Index, RS Means Square Foot Costs, 2005

* Assumes $76/SF for construction costs

6.2.2 FORECAST DEMAND

New office and retail development can be forecasted based on predicted job growth in the City of Long Beach. As shown in Table 36, Long Beach will add as many as 18,000[23] jobs if past growth rates continue for each of the indicated sectors, and if the manufacturing sector does not suffer additional large job losses. Based on forecasted job growth, the City of Long Beach should have sufficient demand to support construction of roughly 2 million SF of office and institutional space, 1.2 million SF of industrial space, 500,000 SF of retail space, and 200,000 SF of restaurant space.

Table 36: Forecasted Job Growth and Office Space Demand (SF) by Sector Through 2010

Growth Sectors	Projected Job Growth Through 2010*	Projected Demand in Square Feet Through 2010**		
		Office & Institutional (SF)	Industrial (SF)	Retail (SF)
Office & Institutional				
Business & Professional Service Jobs	6,374	1,593,542		
Finance Insurance & Real Estate	363	90,625		
Education & Health	888	310,844		
Industrial				
Construction	557	5,569	27,844	
Trade Transportation & Utilities	6,230	62,304	1,246,080	
Retail				
Retail Trade	2,471	24,708		494,167
Restaurants	1,930	19,300		193,000
Total	**18,813**	2,106,892	1,273,924	687,167

Source: MJC, 2005; EDD, 2004

Notes: * Job Growth predictions are based on past growth performance in each sector

** Demand projections are based on the following assumptions: 250 SF of Office Space per new Business Services, Professional Services, Finance, Insurance and Real Estate Job; 350 SF of Institutional space per Educational and Health job; 50 SF of Industrial space per Construction Job; 200 SF of Industrial space per Trade, Transportation and Utility Job as much of the job growth in this sector will be in the transportation sector; 200 SF per new Retail job and 100 SF per new restaurant job.

New development will likely occur in the key opportunity areas described in the next section.

[23] This job growth forecast is in line with SCAG projections of 21,000 new jobs for Long Beach by 2010. The SCAG projections have not been used here because they use an inaccurate job base number, namely the number of employed residents in Long Beach rather than actual jobs in Long Beach, and they are not disaggregated by economic sector.

6.3 Key Economic Opportunity Areas

From an economic development perspective, Long Beach consists of a discrete number of key "opportunity areas" that function uniquely within the overall economic and community structure. In this context, it is important first to review the different "opportunity areas" that exist in Long Beach, to describe their location and characteristics, and to consider the economic development roles they may play alone and in combination with one another.

6.3.1.1 The Downtown and Waterfront

Long Beach's community image and identity is centered on the downtown and waterfront – an area of commercial and City government activity with a "core" bounded roughly by Shoreline Drive to the south, I-710 to the west, Linden Ave to the East and 7th Street to the North. The downtown exudes a "small town" feel, with the walk-able Pine Avenue retail core, a mix of historic art-deco and modern architecture, and a tourist-serving environment which includes first class hotels, the convention center, the Aquarium, the Pike at Rainbow Harbor, and the Performing Arts Center. The downtown serves as the primary tourist destination, as well as the community center for most local government functions.

6.3.1.2 The Douglas Park Development Project

The Douglas Park Project represents the single largest redevelopment opportunity Long Beach will face in the immediate future. Located immediately adjacent to the Long Beach Airport on 238 acres, the Douglas Park Plan calls for a range of potential uses for this newest of Long Beach neighborhoods, including 1,400 residential units, 3.3 million square feet of commercial and office space, up to 400 hotel rooms, up to 200,000 square feet of retail space, and 11 acres of parks and open space.

6.3.1.3 Boeing 717 Plant Site

Boeing 717 plant is a 90 acre site composed of the 600,000 square foot assembly hangar, a paint hangar, empty assembly building, office space and parking lots. This site will likely become available for re-use soon as Boeing recently announced plans to stop production of the 717. As the site is zoned industrial, the City will require rezoning and a specific plan for re-use of this site for non-manufacturing purposes.

6.3.1.4 The Port of Long Beach

Nearly $100 billion a year in international trade moves through the Port of Long Beach, including: clothing, toys, shoes, home furnishings and consumer electronics. The Port is a regional economic driver with over 4.7 million TEUs (Twenty-foot equivalent units) shipped per year through 1,500 acres of terminals. The Port's recently completed Facilities Master Plan outlines a high and low growth forecast for the Port. If year 2020 trade volumes reach low-end forecasts, the Port of Long Beach can accommodate its cargo handling needs by maximizing use of existing land, acquiring and redeveloping privately-owned land, increasing terminal operating efficiencies, and constructing landfills totaling approximately 200 acres. If year 2020 trade volumes reach high end forecasts, the Port of Long Beach will require landfill totaling approximately 450 acres (please see Table 28 for further details). Early planning has begun for a major landfill within the West Basin to provide additional acreage as landfill mitigation credits become available.

Major near-term Port projects, include:

- Construction of a new 389-acre Pier T Marine Terminal and a new 198-acre Pier S Marine Terminal
- Consolidation of Piers G and J into a 300-acre terminal and Piers E and F into a 338-acre marine terminal
- Expansion of the existing Pier J, through minor landfills totaling 100 acres, into a 370-acre Marine Terminal
- Expand the existing Pier A Marine Terminal
- Construction of a new, deepwater, liquid bulk terminal facility on Pier T to service larger vessels
- Relocate portions of the existing Pier B Auto Terminal

6.3.1.5 Long Beach Airport

The Long Beach Airport, home to some 2.9 million square feet of office space, accommodates over 190 businesses and the Long Beach Airport Business Park. Key employers include Epson, DeVry University, Gulfstream Aerospace Corporation, United Technologies Corporation, JetBlue Airways, and SCAN Health Plan. The Long Beach Airport office market is preferred by many businesses due to proximity to the Airport and the 405 freeway.

6.3.1.6 CSU Long Beach

The CSU Board of Trustees has asked all 13 CSU campuses to accept an additional 100,000 FTE (Full Time Equivalent) students by 2011, representing an increase of 31 percent over current enrollment of 321,000 FTES. Some portion of this total enrollment increase will occur at CSU Long Beach. The campus Master Planning effort, currently underway, is exploring how to add up to 9,000 additional FTE students to CSU Long Beach. In 2005, CSU Long Beach will enroll 26,800 FTE students. Overall the campus is committed to preserving green space and will develop new capacity on existing parking lots and developed sites in the Campus core.

6.3.1.7 North Long Beach Manufacturing Cluster

With 586 acres dedicated to industrial uses, North Long Beach is home to such key manufacturing firms as TABC, the Bragg Company and MC2, and these businesses are recognized as assets of North Long Beach for the quality jobs and revenues they contribute to the economy. The North Long Beach Strategic Guide for Redevelopment identifies potential demand for 900,000 square feet of additional industrial development per year in North Long Beach through 2010.[24]

6.3.1.8 Commercial Corridors

A wide variety of commercial (office and retail) uses are located along major arterials in Long Beach. Much of this development can be described as "outmoded auto-oriented strip development." In past community involvement efforts, community members have expressed a desire to re-orient these auto-oriented strip developments into "nodes" of more intense "village center" pedestrian-friendly development at key intersections and sub-regional shopping areas that more accurately respond to current retailing trends.

6.3.1.9 Vacant Lands

With just 473 remaining acres, vacant land is a disappearing resource in Long Beach. Most vacant parcels are concentrated in North Long Beach (100 acres) and West Central Long Beach (148 acres).

6.3.1.10 Oil lands

Over 368 acres in Long Beach are dedicated to oil field extraction. Once these wells run dry this land may also be available for development or use as open space.

6.3.1.11 Westside Manufacturing Area

The Westside manufacturing area includes 180 industrial acres and the CSU Long Beach Bio-Tech and High Tech Center. Located close to the 710 FWY, the Westside may offer opportunities to attract additional manufacturing and high-tech businesses.

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[24] Though this estimate assumes that North Long Beach could attract all the potential industrial development in the Long Beach/Paramount submarket which is unlikely. For a more refined estimate of market support for new industrial development please see Chapter 7 of this report. Industrial estimate can be found in North Long Beach Guide for Redevelopment, page 21

Conclusion

This report is a starting point for the formulation of a meaningful Jobs and Business Strategy for the City of Long Beach. The Long Beach community will decide, together, how this information should inform and guide the City's future economic development activities. To recap, key findings include:

Demographic Findings

- Long Beach is part of a regional economy with many residents working outside the city and many jobs held by non-residents.
- Long Beach has a very diverse population which is geographically separated.
- Long Beach's middle class is shrinking.
- Poverty impacts children more than any other group in Long Beach. Many of Long Beach's youth are both not in school and not employed.

Key Market Findings

- High housing costs have brought Long Beach's stint as one of the last affordable beach towns in Los Angeles County to an end.
- Long Beach's office market is healthy.
- The industrial market is very tight, with a vacancy rate of 2.8 percent and rising lease rates.
- The retail market is a mixed bag, of well performing neighborhood and promenade shopping, poorly performing commercial corridors, and mixed performance in Downtown's shopping venues.
- The hotel market has recovered from 9/11 and the recession.

Key Job Findings

- Long Beach's economy has shifted emphasis from a manufacturing and trade based economy to one focused on education, tourism, and professional and businesses services. This employment shift has likely increased income bifurcation in Long Beach as new jobs pay significant less than lost jobs.

6.3.1.12 Chapter IV: Residents and Workers

Demographic Analysis. Most of the tables and data presented in this section were obtained from the 2000 Population Census of Long Beach and 2003 census data.

Housing affordability analysis. In order to analyze housing affordability and its impact on economic development and employment, MJC used U.S. Census data on income distribution and compared it to a distribution of recent home sales prices (obtained from RealFacts™) and housing rental rates to determine what, if any, affordability gap exists for various family sizes and income groups in Long Beach.

6.3.1.13 Chapter V: Business and Jobs Analysis

Cluster Analysis: In order to complete this analysis, MJC obtained confidential employment data for 2003 from the California Employment Development Department (EDD). This data, known commonly as "ES 202", provides the NAICS classification, total employment, total payroll and the location of every business in the City of Long Beach that pays State payroll taxes. This is the most comprehensive source for employment data by industrial sector. MJC aggregated the data from over 7,000 businesses into business sectors to calculate: total employment, total number of firms, the location quotient, average business size, and average payroll per employee for each sector and sub-sector. The data was also used to calculate business churning within Long Beach for 2003. Aggregate data from the 1997 Census of Manufacturers was used to identify growth and change within each sector.

Retail Sales Leakage Analysis. In order to complete this analysis, MJC used published State Board of Equalization data for taxable retail sales by broad category. These data were analyzed to complete a retail leakage analysis by comparing Long Beach's retail sales per person for each category with retail sales per person for the State of California. Potential leakage locations were identified by comparing retail sales per person for Long Beach with that of nearby cities. Total sales leakage and lost sales tax revenues were calculated by subtracting existing Long Beach retail sales by category from anticipated retail sales given L.A. benchmarks.

Tourism Analysis. Job totals for the tourism analysis were formulated based on ratios from an LA County study on tourism impacts completed by Dean Runyun Associates for the State of California. The study, California Travel Impacts by County, 1992-2003, provides ratios for total jobs and revenues by sector for L.A County.[25] MJC used these ratios to calculate the proportion of total jobs in each category for Long Beach that could be attributed to tourism expenditures, using Long Beach's accommodation jobs as a given to calculate the remaining job figures. Likewise MJC used total accommodation revenues, calculated from TOT data, to estimate the revenue for the other sectors based on the L.A. ratios. This analysis underestimates impacts, as property and business taxes were not included in Table 17 (page 26).

[25] http://www.deanrunyan.com/pdf/pdfca/dscou02.pdf

Appendix B: Additional Tables & Figures

Figure 1: Land Use by Long Beach Planning Area

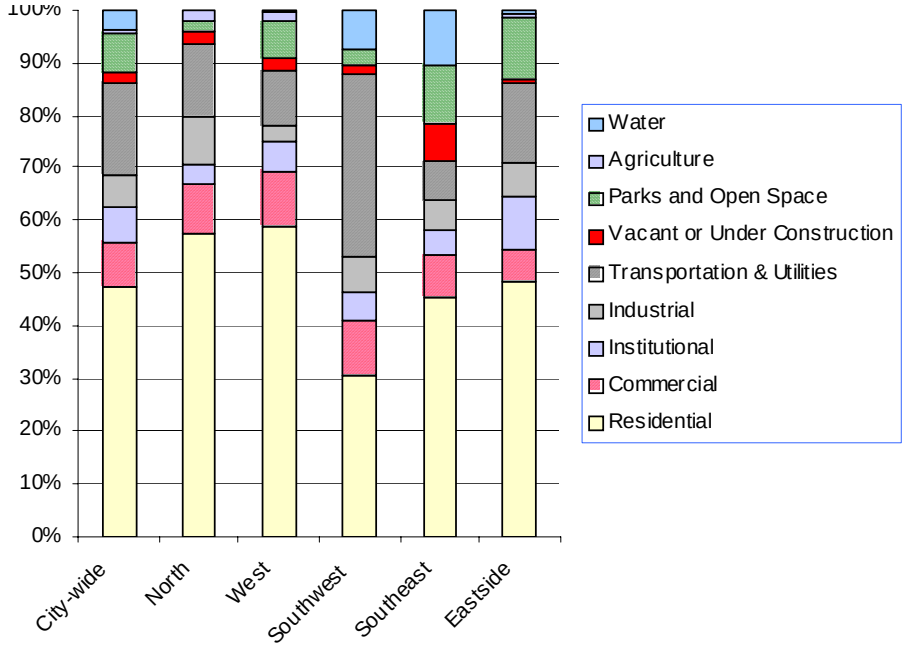

Figure 2: Long Beach Ethnicity

	Percent	Total
Other	2.0%	9,467
2+ Races	2.0%	9,595
Black	10.2%	48,491
Asian	13.5%	63,923
White	28.4%	134,539
Hispanic	43.9%	207,980
	100.0%	473,995

Source: Census, 2003

Figure 5: Unemployment, 1996-2004

	Long Beach	Los Angeles	California
1996	7.7%	9.3%	
1997	6.4%	7.8%	
1998	6.1%	7.4%	
1999	5.4%	6.7%	
2000	5.0%	6.1%	4.9%
2001	5.3%	6.4%	5.4%
2002	6.3%	7.7%	6.7%
2003	6.5%	8.0%	6.7%
2004	5.5%	6.7%	5.7%

Source: BLS, 2005

Figure 10: Long Beach Employment, 1991-2003

Year	Total Jobs
1991	168,815
1992	165,642
1993	152,108
1994	165,849
1995	175,252
1996	164,272
1997	162,552
1998	157,636
1999	165,549
2000	162,054
2001	163,500
2002	164,800
2003	162,093
Average	163,856

Source: EDD, 2005

Figure 11: Jobs by Sector, Long Beach CA.

	2003 Jobs	Percent
Other	683	0.4%
Information	2,604	1.6%
Personal Services	4,381	2.7%
Construction	5,727	3.5%
Finance, Insurance, Real Estate	7,693	4.7%
Government*	9,062	5.6%
Manufacturing	17,239	10.6%
Trade	18,265	11.3%
Retail Trade	14,987	9.2%
Tourism, Leisure, Hospitality & Arts	19,001	11.7%
Professional & Business Services	22,527	13.9%
Education Services	16,512	10.2%
Health Services	23,412	14.4%
Total Jobs	**162,093**	100%

Source: EDD, 2005